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George Weston Limited

Annual Report 1971

Weston's

George Weston Limited Annual Report for the year ended December 31, 1971

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Directors

W. GARFIELD WESTON
Chairman of the Board
George Weston Limited

W. GALEN WESTON
Vice-Chairman of the Board
George Weston Limited
Chief Executive Officer
Loblaw Companies Limited

G. E. CREBER
President and Managing Director
George Weston Limited

N. E. KAYE
Executive Vice-President
George Weston Limited

V. F. MACLEAN
President
Kelly, Douglas & Company, Limited

GEORGE C. METCALF
Chairman of the Board
Loblaw Companies Limited

R. I. NELSON
President
British Columbia Packers Limited

E. P. RATHGEBER
President
Westfair Foods Ltd.

FRANK A. RIDDELL
Vice-President
George Weston Limited
President
Weston Bakeries Limited
President
Interbake Foods Limited

R. C. SHROPSHIRE
President
William Neilson Limited

G. H. WESTON
Chairman
Associated British Foods Limited

Officers

W. GARFIELD WESTON
Chairman of the Board

W. GALEN WESTON
Vice-Chairman of the Board

G. E. CREBER
President and Managing Director

N. E. KAYE
Executive Vice-President

P. F. CONNELL
Vice-President, Finance

FRANK A. RIDDELL
Vice-President

D. N. McPHIE
Controller

K. H. SMITH
Secretary

J. W. AINSWORTH
Treasurer

B. G. CHILDS
Manager of Special Projects

D. W. S. RUTHERFORD
Assistant Controller

W. A. EASTON
Assistant Treasurer

Annual Meeting

Royal York Hotel, Toronto
May 24, 1972 at 10:30 a.m.

Financial Highlights

	1971	1970
Sales	$1,036,578,000	$997,386,000
Net Income	16,785,000	15,645,000
Return on Shareholders' Equity	10.2%	10.0%
Income from Operations	15,113,000	14,396,000
Cash Generated from Operations	31,715,000	29,935,000
Working Capital	99,664,000	99,190,000
Working Capital Ratio	1.74 to 1	1.83 to 1
Dividends	10,180,000	9,618,000
Shareholders' Equity	170,517,000	163,950,000
Total Assets	456,833,000	442,412,000
Per Common share		
Net Income	1.45	1.35
Income from Operations	1.29	1.23
Dividends	.84	.79½

Report to Shareholders

In its 1971 year the company's consolidated net sales for the first time exceeded one billion dollars and, despite many difficulties in the economy, profits increased. Income from operations for the year was $15,113,000 and net income, $16,785,000. A detailed report is given in the following pages.

During the year a number of senior executive changes were made.

Mr. N. E. Kaye joined the Company as Executive Vice-President bringing with him many years of experience in the food industry.

Mr. John C. Scarth assumed the presidency of Eddy Paper Company Limited, and now heads the Forest Products Division. Mr. Scarth succeeded Mr. W. C. R. Jones upon the latter's retirement. Mr. Jones' valuable contribution over the years has been much appreciated.

Early in 1972 Mr. Frank A. Riddell was given responsibility for the Biscuit & Confectionery Division.

We report with deep regret the death of Mr. F. Clifford Lennox in December 1971. His leadership as President of Somerville Industries Limited has contributed significantly to the success of your Company. Mr. John G. Church, formerly Executive Vice-President, has succeeded Mr. Lennox as President of Somerville Industries and head of the Packaging Division.

1971 was a year of consolidation and organization, with no significant acquisition being made during the year. However, in 1972 up to date of writing this report, the Company purchased an 80% interest in Stuart Limited of Montreal, a major producer of snack cakes, and agreed to acquire from its unconsolidated subsidiary, Loblaw Companies Limited, 100% of Donlands Dairy Limited.

The Forest Products Division sold a portion of its properties in Hull, Quebec, to the National Capital Commission of Ottawa for $29.5 million. The assets sold consisted of the sulphite and groundwood mills and a newsprint machine.

In the 1970 Annual Report it was forecast that the year 1971 which got off to a slow start would produce improved results. For 1972 we believe that your Company is poised to make substantial gains, and expect 1972 results to be significantly better.

On behalf of the Board

G. E. Creber
President and Managing Director

Toronto, Canada
April 26, 1972

Review of Operations

The operations of George Weston Limited and its subsidiary companies are classified into the following divisions:

Consolidated Divisions:
- Bakery
- Biscuit & Confectionery
- Chocolate & Dairy
- Fisheries
- Forest Products
- Packaging
- Wholesale & Retail

Non-Consolidated Division
- Loblaw

The principal companies in each division and their major facilities, products and services are set out on the centre-fold chart in this Report. Highlights of the operations of each Division are given in the following pages.

In 1971 emphasis was placed upon improvement of profitability of existing operations in a generally adverse economic climate. It is gratifying to report that all Divisions recorded a profit on operations and all showed improvement over 1970 except the Forest Products Division. In addition a major gain was realized through the favorable purchase of outstanding bonds of a subsidiary.

SALES

Consolidated net sales exceeded the billion dollar mark for the first time to reach $1 037 million, an increase of 4% over last year. Increases were recorded in all Divisions through internal growth rather than by acquisition of other operations. Comparative sales figures by Division are illustrated in the chart located in the centre of this Report.

EARNINGS

Consolidated net income for the year at $16.8 million or $1.45 per common share showed an improvement of $1.2 million or 7.3% (10¢ per common share) over 1970. These results reflect an after tax return of approximately 10.2% on shareholders' equity.

Income from operations increased 5.0% (6¢ per common share) to $15.1 million ($1.29 per common share). All Divisions except Forest Products showed improvement.

Extraordinary items improved net income by $1.7 million or 16¢ per share. A gain of $3.4 million was realized by the favorable purchase and cancellation of the outstanding bonds of a subsidiary. Provision for income taxes in respect of prior years of $1.7 million includes an amount of $1.9 million arising from the receipt of reassessments (including interest) disallowing certain expenses of a subsidiary incurred in prior years. The Company had previously considered the expenses deductible for tax purposes.

DIVIDENDS

The increased common share dividend rate of 21¢ per share per quarter which commenced with the October 1970 dividend was maintained throughout the year. Dividends declared in 1971 were therefore 84¢ as compared to 79½¢ in 1970. The regular dividends of $4.50, $6.00 and $6.00 per share were continued in respect of the First, Second and Third Series of preferred shares respectively.

WORKING CAPITAL

Working capital of $99.7 million was marginally increased from the 1970 balance of $99.2 million notwithstanding net reduction in long-term debt during the year of $5 million. The ratio of current assets to current liabilities at the end of 1971 was 1.74 to 1 (1970—1.83 to 1).

CAPITAL EXPENDITURES

Expenditures for fixed assets in 1971 amounted to $18.2 million, while proceeds from disposals were $3.2 million, a net outlay of $15.0 million. In 1970 total expenditures were $21.6 million. There were no single major capital expenditures in 1971. Funds were allocated only to selected cost reduction and modernization projects. Depreciation charged to operations in 1971 was $17.4 million as compared to $17.2 million in 1970.

LONG-TERM DEBT AND SHAREHOLDERS' EQUITY

Long-term debt was reduced during the year by $5.0 million (after classification of amounts due within one year as current liabilities). The Series B 4¾% sinking fund debentures in the amount of $4.9 million matured in October, 1971 and were redeemed in accordance with debenture provisions. The 7% sinking fund bonds of Eddy Paper Company Limited in the amount of $27 million U.S. ($27.8 million Canadian) were purchased at a favorable price during the year. This debt was substantially replaced by a term loan from a Canadian Chartered Bank of $26 million repayable in annual instalments of $3 million in 1974 through 1976 and $17 million in 1977 with interest at ½% above prime rate, and accordingly working capital was substantially unaffected.

Supplementary Letters Patent were obtained during the year authorizing a Fourth Series of 6% preferred shares, par value $100 each, convertible on payment of $12.00 into 8 common shares of the Company. The total authorized amount, $250,000, was issued to certain key officers of the Company and its major subsidiaries on November 1st, 1971 in accordance with the Company's Executive Share Purchase Plan. No other shares were issued in 1971.

SUBSEQUENT EVENTS

While there were no significant corporate acquisitions during 1971, the Company purchased for $2.4 million on February 1, 1972, an 80% interest in Stuart Limited of Montreal, a major producer of snack cakes.

Further, in April, 1972, the Company agreed to acquire from Loblaw Companies Limited 100% of Donlands Dairy Limited of Toronto (including Royal Dairy of Guelph, Ontario), a leading producer of milk and ice-cream products.

In February 1972, the Forest Products Division sold a portion of its properties in Hull, Quebec, to the Federal Government's National Capital Commission for $29.5 million. A substantial gain over the book value of the assets was realized. The property sold includes the sulphite and groundwood mills and a newsprint machine. The remaining papermaking operations at Hull will continue.

BAKERY

Sales of $67.6 million in this Division (about 6.0% of consolidated sales) increased $5 million in 1971 representing an increase of 7.3% over 1970.

Profits were improved over 1970 resulting largely from improved utilization of plant, equipment and people. Many of the projects begun in prior years in the areas of improved training programmes for production and sales personnel and new concepts in marketing made their contribution in 1971 and should continue to do so as they are updated, to enable us to compete in a very price conscious competitive industry.

Further projects for the improvement of manufacturing and distribution efficiency were started in 1971. The full impact of these projects will become effective during 1972 and later years.

On February 1, 1972 the Division acquired 80% of the outstanding capital stock of Stuart Limited of Montreal, Quebec. Stuart is a major producer of snack cakes bearing the trade names "May West", "Caprice", "Anne-Marie", "Valerie", "Swiss Rolls", "Pop", "Croquette". The addition of the Stuart volume has enhanced Weston's leading position in cake production in Canada and provides a base for expansion into the rapidly growing snack food business.

BISCUIT & CONFECTIONERY

In 1971 net sales of the Biscuit & Confectionery Division amounted to $105.7 million or 9.7% of consolidated sales, an increase of $1.2 million over 1970, despite a three week strike at Longueuil, Quebec during the summer season and extreme competition in many geographic areas.

Labour, material and other costs continued to rise in 1971. For example, the sharp increase in the world price of sugar, a major ingredient of the Division's products, has become cause for concern in the industry.

Income from operations, while showing a significant improvement

over 1970, could not be considered satisfactory. Several projects have been initiated in various manufacturing locations to improve in-plant handling of raw materials and finished products which will lead to increased capacity and efficiency.

As of January 1, 1972, the name of Weston Foods Limited was changed to Interbake Foods Limited, and the operating companies in the United States were amalgamated to form Interbake Foods, Inc.

CHOCOLATE & DAIRY

Sales of this Division in 1971 at $52.6 million representing 4.4% of consolidated sales, were increased $4.4 million or 9.1% over 1970. Chocolate products accounted for most of the increase, with a modest increase in dairy products and little change in ice cream sales. The increase in confectionery sales exceeded the rate of market growth and thus resulted in the Division gaining an increased share of the market.

Income from operations was much improved over 1970, but has not yet reached a satisfactory level in relation to sales and assets employed. The increased sales, the cost improvement programs initiated in 1970, and the further control techniques developed during the year have contributed to the betterment in earnings. Selective emphasis is continuing to be made in marketing the Division's products, and more efficient production facilities and distribution methods are being developed.

In April, 1972, the Division agreed to acquire from the Loblaw Division 100% of Donlands Dairy Limited, which has prominent dairy and ice cream operations in the Toronto area, and through a subsidiary, Royal Dairy, in Guelph and south-western Ontario.

FISHERIES

Total 1971 sales of the Fisheries Division, which is comprised of British Columbia Packers Limited and Connors Bros., Limited, amounted to \$112.9 million, or 10.7% of consolidated sales, an increase of \$6.0 million over 1970 sales. The continuation of the unpegged Canadian dollar at relatively high value in relation to foreign currencies has adversely affected both sales volume and earnings from the very significant export market of this Division. Notwithstanding this, 1971 income from operations was improved over 1970.

British Columbia Packers Limited achieved record levels in both sales and earnings in 1971. Canned salmon, tuna and other canned sea foods showed substantial sales gains while fresh and frozen products and herring products maintained approximately the same sales volumes as in 1970. While it was anticipated that salmon landings in British Columbia would be substantially reduced from the previous year, the actual catch greatly exceeded expectations, resulting in good sales volume and reasonable inventory carry-over. Herring landings on the Atlantic coast however were significantly reduced from 1970.

A new plant was completed during the year at Isle aux Morts, Newfoundland, to provide increased capacity for the production of herring food products. At Santa Fe Springs in California a new frozen food plant commenced production in late 1971. With a cold storage capacity of 12 million pounds it is one of the largest plants of its type in the United States.

Connors Bros., Limited experienced a decline in sales but maintained earnings at approximate 1970 levels. The decrease in sales is attributed mainly to a decrease in herring landings for sardine production. Limited supply also restricted sales of groundfish and shellfish. Due to the high proportion of export sales of Connors Bros., the rise in value of the Canadian dollar during the year had a very significant adverse effect upon operating income. This factor and increases in labour and raw material costs were offset by modest price increases and improved efficiencies.

FOREST PRODUCTS

Sales of this Division in 1971 at $118.9 million (11.3% of consolidated net sales) showed an improvement over 1970. Income from operations, however, suffered greatly from the unfavorable economic conditions affecting the pulp and paper industry during the year. In particular the continuing rise in the value of the Canadian dollar has reduced price realization in both the export and domestic markets.

The Eddy Forest pulp mill at Espanola, Ontario is completing extensive modifications which will enable it to meet the standards of the Ontario Water Resources Commission in respect of solids content in mill effluent. Extensive cost reduction studies are being made with a view to reducing the acquisition cost of wood from the timber limits and improving the efficiency of the pulp and papermaking operations.

The Appleford paper converting operations at Hamilton, Ontario has shown a marked improvement in operating income, largely the result of the discontinuance of unprofitable lines. A dramatic improvement in earnings was recorded by the Eastern Fine Paper operation at Brewer, Maine, through an improved product mix, development of coated paper sales, and increased manufacturing efficiency. The J. E. Boyle sawmill continued to improve profits assisted by a relatively strong lumber market.

Shortly after the year-end, negotiations were completed with the Federal Government's National Capital Commission for the sale of a portion of the Division's Hull, Quebec property at a substantial gain. In consequence the sulphite mill, the groundwood mill and the newsprint operations of The E. B. Eddy Company have been discontinued. Tissue, fine and other papers will continue to be produced at the Hull location.

PACKAGING
Sales of the Packaging Division for the year improved 4.1% over 1970 to $45.8 million or 4.2% of consolidated sales. Gains were experienced in packaging, automotive and games, while plastics and display sales showed some reduction from 1970 levels.

Income from operations was $1.8 million, reflecting an increase of $.4 million, or 30% over 1970's performance, and amounting to a 13.7% return on shareholders' equity. Most of the operating divisions contributed to the increase in operating profits. In particular the Games division, the Automotive division, and the 50% owned Mastico Industries Limited showed substantial improvement in 1971.

Competition continues to be very keen in all areas of this Division's operations and there is currently some uncertainty as to the nature of probable modifications of the Canada/United States Auto Trade Pact and the consequent effect upon the automotive products of the Division.

WHOLESALE & RETAIL
This Division experienced a modest 3.5% increase in sales to $563 million or 53.7% of consolidated sales. Income from operations, however, increased 19% over 1970.

Kelly, Douglas & Company, Limited achieved an increase of 9.4% in net sales, and a substantial increase in income from operations. Sales improvement was obtained in all divisions and included new sales generated from the first full year of operations of the Foremost Dairy and of the Fairview Farms egg plant, as well as continued advances in volume of the Wholesale/Retail operations, the Nabob food manufacturing, the meat processing and the catering operations. Improvement in operating income was noted in all operations other than Wholesale/Retail, whose income was held to 1970

levels by intense competition experienced during the year.

Westfair Foods Ltd. maintained in 1971 the substantial increase in sales achieved in 1970, and recorded an improvement in earnings despite the adverse effect of the food retail discount struggle during the year and the less than buoyant economic conditions in the Prairies. The 1971 year included 52 weeks of operation as compared to 53 in 1970. While the major base of Westfair is a wholesale food operation, expansion is continuing in the retail field through warehouse discount markets, convenience stores and supermarkets, with new units of all types planned to open in 1972. An addition was made to the warehouse facilities in Victoria, B.C. to provide adequate service to the growing market in that area.

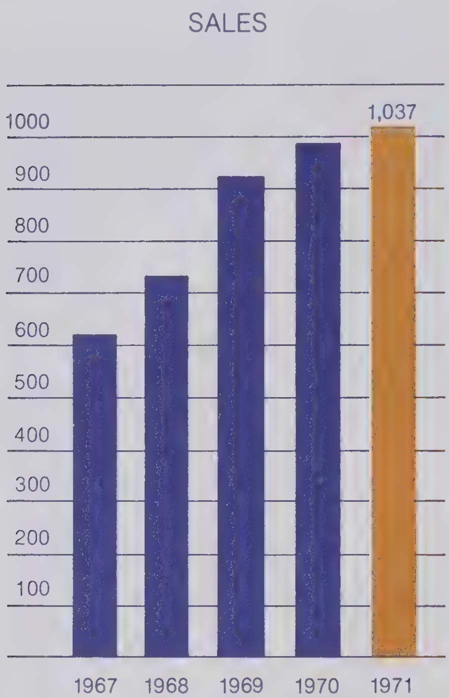
LOBLAW

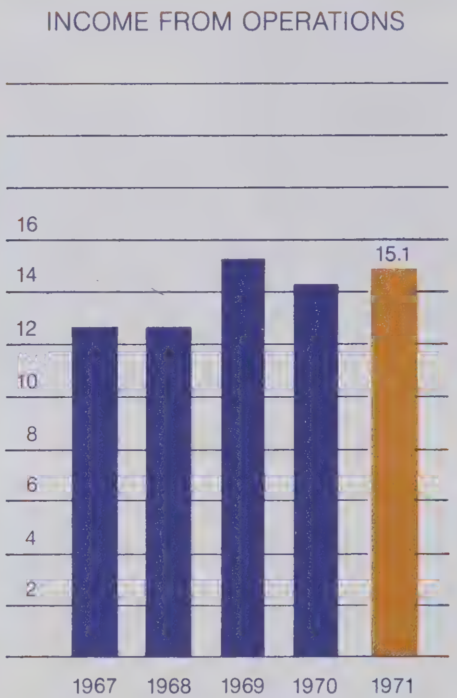
The operations of the Loblaw Division are not included in the Company's consolidated financial statements. Although the Company holds 60.3% of the voting stock of Loblaw Companies Limited (the controlling company of the Division) it is considered that consolidation would not be appropriate or meaningful in view of the substantial minority interests both in Loblaw Companies Limited and in certain of its major subsidiaries.

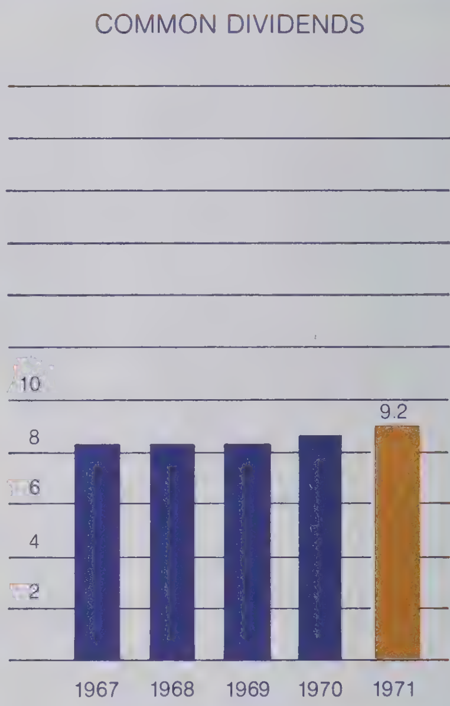
Dividends received from Loblaw in the amount of $2,167,000 ($2,120,000 in 1970) are less than the Company's portion of Loblaw net income for the year ending April 3, 1971, and have been included in income from operations of the Company. Consolidated net sales of Loblaw increased by $34 million to $2,558 million in its 1971 year.

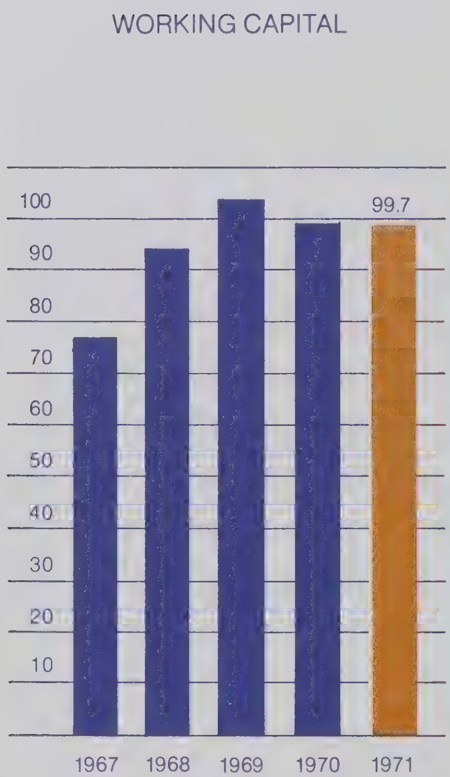
Financial Charts

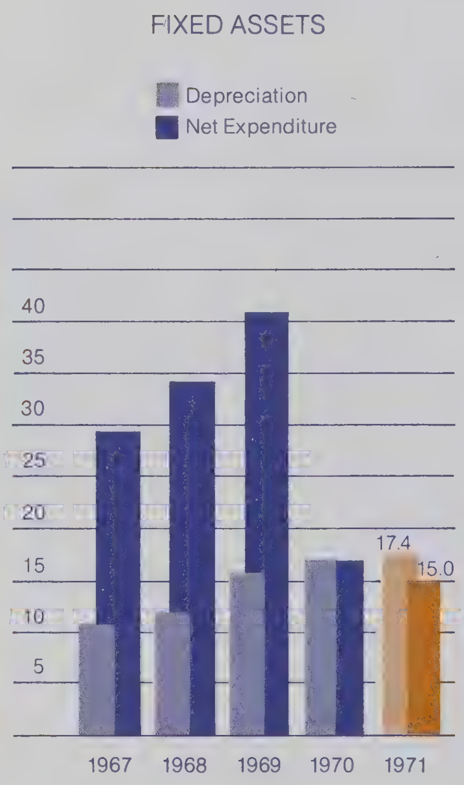
(in millions of dollars)

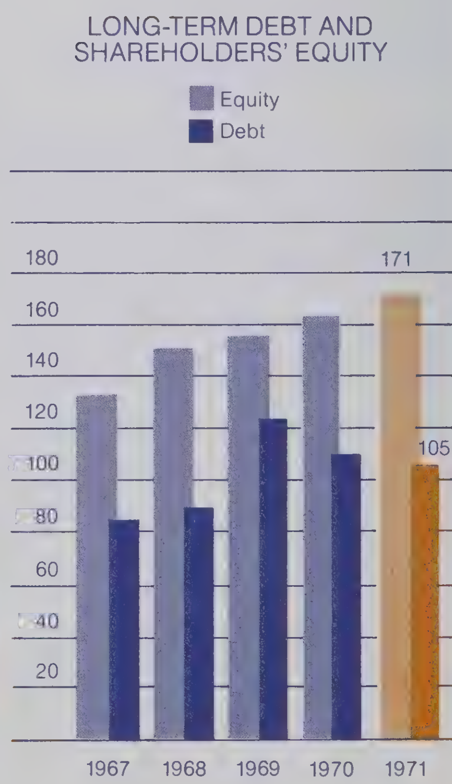






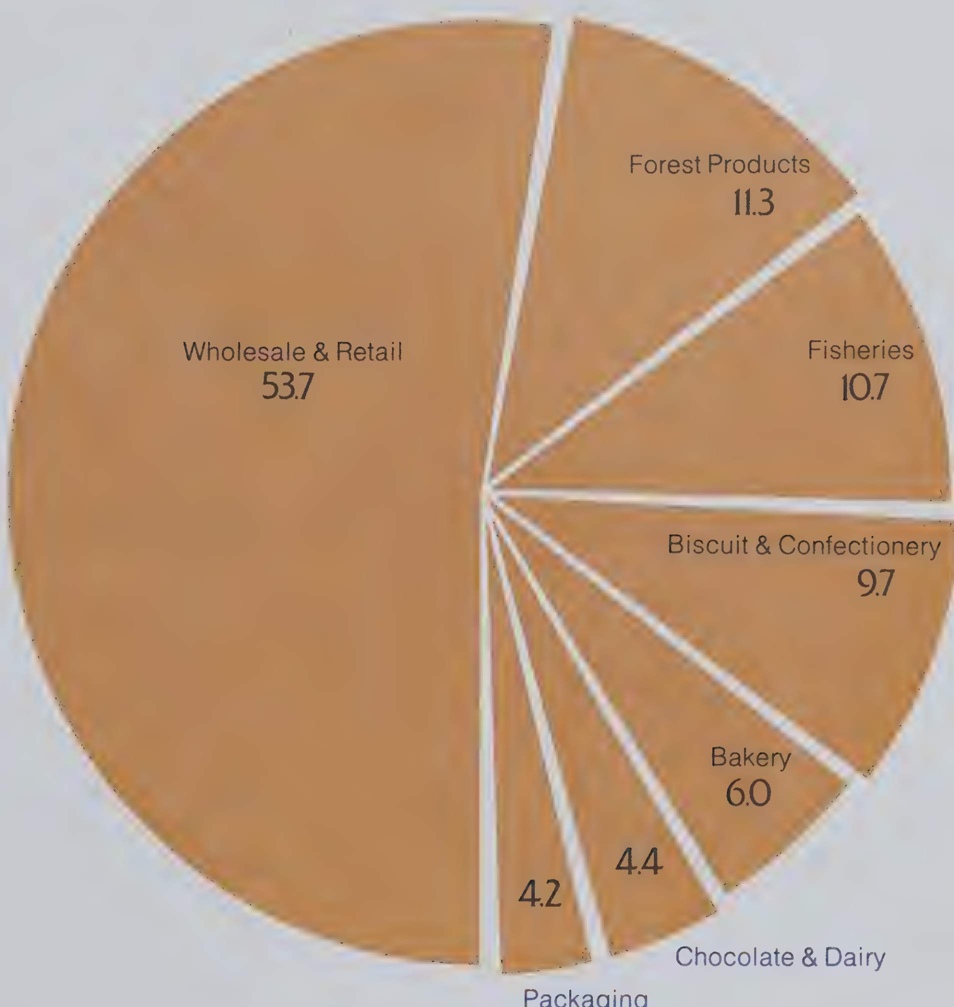






Sales by Division

	1971 ($ millions)	1970 ($ millions)
Bakery	67.6	63.0
Biscuit & Confectionery	105.7	104.5
Chocolate & Dairy	52.6	48.2
Fisheries	112.9	106.9
Forest Products	118.9	116.7
Packaging	45.8	44.0
Wholesale & Retail	563.0	544.0
Interdivision	(29.9)	(29.9)
Consolidated Net Sales	1,036.6	997.4



George Weston Limited

Bakery

Principal Subsidiaries
Weston Bakeries Limited
Lane's Bakeries Limited
Soo Line Mills (1969) Limited
Stuart Limited

Facilities
Bakeries in Vancouver, Calgary, Edmonton, Regina, Winnipeg, Essex, Kitchener, Toronto, Sudbury, Kingston, Kirkland Lake, Montreal and Moncton. Flour mill in Winnipeg. Warehouses in all principal cities in Canada.

Products — Services
Produces a wide variety of bread, rolls, cakes and other bakery products under national brand and private label and distributes to 25,000 food retail and catering outlets in all provinces of Canada. Produces flour and mill feeds for internal use and domestic and export markets.

Biscuit & Confectionery

Principal Subsidiaries
Interbake Foods Limited
George Weston Limited — Operating Division
McCormick's Limited
Paulin Chambers Co. Ltd.
Marven's Limited
Interbake Foods Inc. (U.S.) and divisions
Southern Biscuit Company
American Biscuit Company
Johnson Biscuit Company

Facilities
Biscuit and confectionery plants at Winnipeg, Brantford, London, Longueuil, Moncton in Canada, and Richmond (Virginia), Passaic (New Jersey), Tacoma (Washington), Sioux City (Iowa) and Battle Creek (Michigan). Sales branches in principal cities of Canada and United States.

Products — Services
Manufactures and distributes a broad range of sweet biscuits, crackers, ice cream cones, confections and candies throughout Canada and in the United States.

Chocolate & Dairy

Principal Subsidiaries
William Neilson Limited
Eplett Dairies Co. Limited
Willards Chocolate Limited
Devon Ice Cream Co. Limited
Nassau Dairy Products Co. Limited
Donlands Dairy Limited
Royal Dairy

Facilities
Chocolate production facilities in Toronto.
Ice cream plants in Toronto and New Liskeard, Ontario.
Dairies in Beachville, Cochrane, Guelph, Timmins and Toronto, Ontario.

Products — Services
Produces and distributes throughout Canada and in the United States a wide range of chocolate bars and boxed chocolates, chocolate coatings and cocoa and specialty items. Also manufactures bulk and packaged ice cream and frozen novelties, and processes milk and associated products.

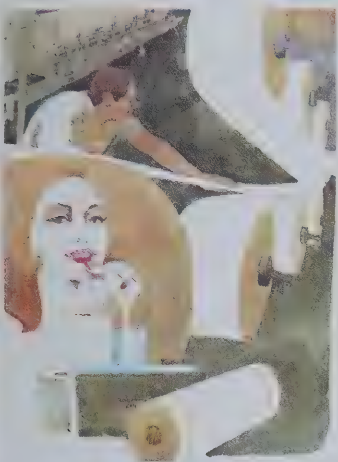
Fisheries

Principal Subsidiaries
British Columbia Packer
Limited
Nelson Bros. Fisherie
Limited
Rupert's Certi-Fresh F
Inc.
Connors Bros., Limited
H. W. Welch, Limited
Lewis Connors & Sons
Limited

Facilities
British Columbia Packer
Limited have extensive
canning, freezing and
processing facilities in
British Columbia, Alaska
California and on the
Atlantic coast.
Connors has similar faci
in the Bay of Fundy area
including a can manufac
plant.

Products — Services
British Columbia Packer
group are major supplie
Pacific coast salmon and
wide variety of fresh, froz
canned and prepared fis
well as fish meal and oil.
Connors group are Cana
leading packers of sardi
and a large processor of
Atlantic Ocean seafoods
fish products.

Forest Products



Principal Subsidiaries
Eddy Paper Company Limited
The E. B. Eddy Company
J. E. Boyle Ltd.
Eddy Forest Products Limited
Eastern Fine Paper, Inc. (U.S.)

Facilities
Extensive timber limits and wood harvesting facilities in Ontario and Quebec.
Pulp and paper mills at Hull, Quebec and Espanola, Ontario.
Converting plants at Hamilton, Ontario and Montreal, Quebec.
Paper mill at Brewer, Maine.
Sawmill at Davidson, Quebec.

Products — Services
Manufactures and distributes fine, specialty and kraft papers for printing, converting, packaging and wrapping; paperboard, newsprint, kraft pulps, lumber; tissue, other household and industrial paper products; flexible and rigid packaging.

Packaging

Principal Subsidiaries
Somerville Industries Limited
Somerville Automotive Trim Limited
Canadian Folding Cartons Limited

Facilities
Major packaging plants at London and Toronto, Ontario, Montreal, Quebec and Winnipeg, Manitoba.
Automobile trim component plants at Toronto and Windsor.
Plastic moulding and point-of-purchase display plants in Toronto.

Products — Services
Folding cartons and set-up boxes, milk cartons, labels, games and puzzles; fibreboard, hardboard and compression moulded plastic automotive components; plastic cups, dishes and cutlery; custom injection moulding and vacuum forming; merchandising displays and exhibits.
Distribution across Canada and in the United States.

Wholesale & Retail

Principal Subsidiaries
Westfair Foods Ltd. and divisions
Western Grocers Malkins
Econo-Marts Mini Marts
Dominion Fruit
Shop Easy Stores
Kelly, Douglas & Company, Ltd.
Nabob Foods Limited
Super-Valu Stores (B.C.) Ltd.
Calvan Canus Catering Services Ltd.
Isaacs Pharmacy Limited
Dickson Importing Co. Limited
Foremost Foods Ltd.

Facilities
Westfair has food distribution warehouses and retail food outlets throughout Western Canada.
Kelly, Douglas has food manufacturing facilities at Burnaby, B.C. and Ajax, Ontario; food warehouses, retail food markets and drug stores in British Columbia.

Products — Services
Westfair wholesales and retails food and other products throughout Western Canada operating convenience stores, discount outlets and food markets.
Kelly, Douglas conducts food and drug distribution and catering operations in British Columbia and the Yukon and manufactures food products for sale across Canada.

Loblaw (not consolidated)

Principal Subsidiaries
Loblaw Companies Limited
Loblaw Groceterias Co., Limited
Power Supermarkets Limited
Zehr's Markets Limited
Dionne Limited
The O.K. Economy Stores Limited
National Grocers Company Limited
Atlantic Wholesalers Limited
Save Easy Supermarkets Ltd.
Sayvette Limited
York Trading Limited
G. Tamblyn, Limited
National Tea Co. (U.S.)
Loblaw Inc. (U.S.)

Facilities
About 300 supermarkets in Canada and 1,000 in United States.
Grocery warehouses from Saskatchewan to Atlantic Coast.
Chain of drug stores across Canada and in United States.
Department stores in Toronto area.

Products — Services
Retail marketing of food, drug and other products in Canada and United States — wholesale food distribution in Canada.
Department store merchandising in Toronto area.

Consolidated Financial Statements

Consolidated Statement of Income

GEORGE WESTON LIMITED
Year ended December 31, 1971
(in thousands of dollars)

	1971	1970
SALES AND OTHER INCOME:		
Sales	$1,036,578	$ 997,386
Equity in income of George Weston Properties Limited	598	91
Dividends from Loblaw Companies Limited	2,167	2,120
Other investment income	1,605	1,997
	1,040,948	1,001,594
COSTS AND EXPENSES:		
Cost of sales, selling and administrative expenses (before the following items)	984,366	944,604
Depreciation	17,412	17,248
Interest on long-term debt	7,030	7,513
Other interest	3,268	3,839
	1,012,076	973,204
INCOME FROM OPERATIONS BEFORE INCOME TAXES, minority interests and extraordinary items	28,872	28,390
INCOME TAXES	11,353	11,887
	17,519	16,503
MINORITY INTERESTS	2,406	2,107
INCOME FROM OPERATIONS BEFORE EXTRAORDINARY ITEMS	15,113	14,396
EXTRAORDINARY ITEMS (note 2)	1,672	1,249
NET INCOME FOR THE YEAR	$ 16,785	$ 15,645
PER COMMON SHARE:		
Income from operations before extraordinary items	$ 1.29	$ 1.23
Net income	$ 1.45	$ 1.35

Consolidated Balance Sheet

GEORGE WESTON LIMITED
as at December 31, 1971
(in thousands of dollars)

ASSETS

	1971	1970
CURRENT ASSETS:		
Cash	$ 7,934	$ 3,483
Demand loans to a non-consolidated subsidiary	1,359	1,364
Accounts receivable (note 3)	73,636	64,329
Inventories, at the lower of cost and market—		
Raw materials and supplies	40,569	43,199
Finished goods	106,228	102,028
Prepaid expenses	5,047	4,201
	234,773	218,604
INVESTMENTS and other assets, at cost:		
Shares in non-consolidated subsidiaries (note 4)	24,677	23,921
Secured loans and advances (note 10)	5,574	6,857
Sundry investments (note 4)	3,694	4,142
Properties held for sale	3,812	3,145
Excess of cost of shares of subsidiaries over fair value of net assets acquired (note 1b)	2,737	3,089
Deferred foreign exchange adjustment (note 1c)	568	(734)
	41,062	40,420
FIXED ASSETS, at cost:		
Land and buildings	105,164	105,654
Machinery and equipment	298,471	288,906
	403,635	394,560
Less accumulated depreciation	222,637	211,172
	180,998	183,388
	$456,833	$442,412

On behalf of the Board:
W. Garfield Weston, Director
G. E. Creber, Director

LIABILITIES

	1971	1970
CURRENT LIABILITIES:		
Bank advances and notes payable (note 5)	$ 53,759	$ 41,486
Accounts payable	69,451	62,228
Taxes payable	7,273	3,980
Dividends payable	2,291	2,291
Long-term debt payable within one year	2,335	9,429
	135,109	119,414
LONG-TERM DEBT (note 6)	105,284	110,264
DEFERRED ITEMS:		
Deferred income taxes	16,855	17,880
Deferred real estate income	225	295
Excess of fair value of net assets acquired over cost of shares of subsidiaries (note 1b)	4,670	4,930
	21,750	23,105
MINORITY INTERESTS IN SUBSIDIARIES	24,173	25,679
SHAREHOLDERS' EQUITY:		
Preferred shares (note 7)	19,390	19,428
Common shares (note 7)	19,123	19,123
Retained earnings (note 8)	132,004	125,399
	170,517	163,950
	$456,833	$442,412

Consolidated Statement of Retained Earnings

GEORGE WESTON LIMITED
Year ended December 31, 1971
(in thousands of dollars)

	1971	1970
RETAINED EARNINGS at beginning of year	$125,399	$119,372
Add net income for the year	16,785	15,645
	142,184	135,017
Deduct:		
Dividends declared—		
Preferred shares:		
First series ($4.50 per share)	444	455
Second series ($6.00 per share)	470	470
Third series (1971—$6.00 per share; 1970—$1.15 per share)	102	20
	1,016	945
Common shares (1971—84¢ per share; 1970—79½¢ per share)	9,164	8,673
	10,180	9,618
RETAINED EARNINGS at end of year	$132,004	$125,399

Consolidated Statement of Source and Application of Funds

GEORGE WESTON LIMITED
Year ended December 31, 1971
(in thousands of dollars)

	1971	1970
SOURCE OF FUNDS:		
From operations —		
Net income for the year	$16,785	$15,645
Add (deduct):		
Depreciation	17,412	17,248
Deferred income taxes	(1,025)	(752)
Amortization of differences between cost of shares of subsidiaries and fair value of net assets acquired	(1,387)	(1,159)
Deferred real estate income	(70)	(1,047)
	31,715	29,935
Disposal of fixed assets	3,168	4,369
Long-term debt issued	29,639	2,673
Preferred shares issued	250	1,700
Net decrease in investments and properties held for sale	308	649
Excess of fair value of net assets acquired at dates of acquisitions over cost of shares	1,479	320
	66,559	39,646
APPLICATION OF FUNDS:		
Reduction in long-term debt	34,619	13,584
Additions to fixed assets	18,190	21,614
Preferred shares purchased for cancellation	288	252
Dividends to shareholders	10,180	9,618
Decrease in minority interest	1,506	1,190
Deferred foreign exchange adjustment	1,302	(734)
	66,085	45,524
INCREASE (DECREASE) IN WORKING CAPITAL	474	(5,878)
WORKING CAPITAL beginning of year	99,190	105,068
WORKING CAPITAL end of year	$99,664	$99,190

Notes to Consolidated Financial Statements

GEORGE WESTON LIMITED December 31, 1971

1. BASIS OF CONSOLIDATION AND ACCOUNTING PRESENTATION—

(a) The accompanying financial statements consolidate the accounts of all subsidiary companies except those of (i) George Weston Properties Limited which are included on the equity basis and (ii) Loblaw Companies Limited and its subsidiary companies.

It is considered inappropriate to fully consolidate George Weston Properties Limited because of the nature of its activities—a separate financing vehicle for properties which might otherwise be lease financed with third parties. In 1971 this company earned $598,300 (including a gain of $518,000 on disposal of properties) and at December 31, 1971 it had investments in properties of $3,613,493 financed substantially by borrowing.

George Weston Limited has voting control of Loblaw Companies Limited through ownership of 60.3% of that company's outstanding class B voting shares. The Weston holding of the combined class A non-voting shares and class B voting shares represents 51.2% of the total participating shares outstanding. Because of the large minority interests in Loblaw Companies Limited, as well as the substantial minority interests in the Loblaw subsidiary companies themselves, it is felt that consolidation of the Loblaw accounts with those of Weston's would not be appropriate or meaningful.

The following information has been extracted from the audited consolidated financial statements of Loblaw Companies Limited for the fifty-three weeks ended April 3, 1971:

	(in thousands of dollars)
Working capital	$ 93,373
Total assets	560,895
Minority interests in subsidiaries	112,125
Shareholders' equity	122,246
Sales	2,558,752
Income from operations	2,177
Net income	5,756

George Weston Limited's portion of the above net income was $2,348,000 (equal to 22¢ per Weston common share). During the year ended December 31, 1971, $2,167,000 (equal to 20¢ per Weston common share) was received by way of dividends and is reflected in the consolidated statement of income. The company's share of the undistributed consolidated earnings of Loblaw Companies Limited earned since acquisition to April 3, 1971 (after retained earnings adjustments) amounted to $34,944,000.

Unaudited results reported by Loblaw for the forty weeks ended January 8, 1972 disclosed income from operations of $2,795,000 and net income of $11,258,000.

(b) The company follows the policy of amortizing, over periods not exceeding twenty years, the net difference between the cost of investment in subsidiaries and the estimated fair value of their net assets at date of acquisition. In the case of one subsidiary acquired during 1969, where the fair value of net assets exceeded the cost of the investment, the excess is being amortized and credited to income over five years, this being the estimated period necessary to achieve the full economies of integration, during which a higher level of costs is anticipated. Total amortization charges and credits resulted in a net credit to income of $1,387,000 in 1971 and $1,159,000 in 1970 (included in "Cost of sales, selling and administrative expenses").

(c) As in the preceding year, all U.S. balances have been translated at a rate approximating the current rate. The net difference on the translation of the company's equity in its U.S. subsidiaries and the long-term debt of its Canadian subsidiaries has been deferred until realized, and is shown on the balance sheet as "Deferred Foreign Exchange Adjustment".

2. EXTRAORDINARY ITEMS—

	1971	1970
	(in thousands of dollars)	
Gain on bond purchase	$3,397	
Income tax credits (charges)	(1,725)	$ 568
Non-recurring gains on lease terminations and disposal of capital assets		808
Foreign exchange loss		(127)
	$1,672	$1,249

A gain of $3,397,000 was realized on the purchase and cancellation of all the outstanding Eddy Forest Products Limited 7% U.S. dollar sinking fund bonds.

Income tax credits (charges) includes tax charges of approximately $1,850,000 arising from the receipt of reassessments (including interest) in 1971 disallowing certain expenses of a subsidiary incurred in prior years. The company had previously considered these expenses as deductible and had recorded the related loss carry forward tax benefits as extraordinary items in 1968 and 1969. Also included in income tax credits (charges) are income tax credits resulting from application of losses of prior years in certain subsidary companies.

3. ACCOUNTS RECEIVABLE—

Accounts receivable include a net amount of $1,447,000 (1970—$1,529,000) arising from trade and other current transactions with subsidiaries not consolidated.

4. INVESTMENTS—

Shares in subsidiary companies not consolidated consist of the investment in George Weston Properties Limited carried at an equity amount of $613,000 and shares in Loblaw Companies Limited having a quoted market value of $32,533,000 carried at a cost of $24,064,000. Because of the number of Loblaw Companies Limited shares involved, and the fact that these securities represent control of the company, the amounts that would be realized if these securities were to be sold may be considerably more or less than the market value included above.

Sundry investments include shares and bonds costing $425,000 with quoted market values of $402,000 at December 31, 1971. Realizable value of the remainder of sundry investments is estimated to be not less than cost.

5. BANK ADVANCES AND NOTES PAYABLE—

Bank indebtedness of certain subsidiary companies of approximately $19,000,000 is secured by a pledge of accounts receivable and inventories of these companies.

6. LONG-TERM DEBT—

	Payable within one year	Total 1971	Total 1970
	(in thousands of dollars)		
George Weston Limited:			
Series C—5¼% Sinking fund debentures due May 15, 1982	$ 6	$ 9,681	
Series D—5½% Sinking fund debentures due May 15, 1983	11	10,211	
Series E—6¾% Sinking fund debentures due July 15, 1986	44	7,794	
Series F—6¾% Sinking fund debentures due June 1, 1987	167	24,167	
	228	51,853	$ 59,497
Eddy Paper Company Limited:			
First Mortgage Bonds—			
1954 Series—4% Sinking fund bonds due October 1, 1974		4,571	
1955 Series—4% Sinking fund bonds due June 1, 1975		2,403	
Bank loan from a Canadian Chartered Bank, bearing interest at ½% above the prime rate secured by a first floating charge on the assets of a subsidiary company, and guaranteed by George Weston Limited, repayable in annual instalments of $3,000,000 commencing in 1974, with a final payment of $17,000,000 in 1977		26,000	
		32,974	36,535
Somerville Industries Limited:			
First Mortgage Bonds—			
Series A—5¼% Sinking fund bonds due October 15, 1973	215	449	
Series B—6% Sinking fund bonds due June 15, 1977		713	
	215	1,162	1,901
British Columbia Packers Limited:			
First Mortgage Bonds—			
Series B—6½% Sinking fund bonds due May 1, 1983 ($4,500,000 U.S.)	386	4,635	
Series C—6½% Sinking fund bonds due May 1, 1983 ($1,500,000 U.S.)	129	1,545	
	515	6,180	6,680
Kelly, Douglas & Company Limited:			
Series A—6% Sinking fund debentures due November 1, 1977	83	1,583	
Demand note payable, bearing interest at 1% above the prime rate, repayable $125,000 quarterly	500	2,125	
	583	3,708	4,307
Notes, mortgages and other long-term debt	794	11,742	10,773
	$2,335	107,619	119,693
Less payable within one year		2,335	9,429
Long-term debt		$105,284	$110,264

Instalments of long-term debt payable each year for the next five years are:

1972	$ 2,335,000	1975	$11,066,000
1973	5,477,000	1976	7,151,000
1974	13,773,000		

Notes Continued

7. CAPITAL STOCK—

	Number of shares 1971	Number of shares 1970	Amount 1971	Amount 1970
			(in thousands of dollars)	
Preferred cumulative redeemable shares, par value $100 each, issuable in series:				
Authorized	356,997	354,497		
Less purchased for cancellation	10,097	7,214		
	346,900	347,283		
Issued and outstanding—				
4½% first series, redeemable at a premium of 4%	96,014	98,897	$ 9,602	$ 9,890
6% second series, redeemable at a premium of 5%	78,386	78,386	7,838	7,838
6% third series, redeemable at par after October 1, 1980, convertible into 5 common shares for each preferred share and $3.75. Issued in 1970 (note 10)	17,000	17,000	1,700	1,700
6% fourth series, redeemable at par after October 1, 1980, convertible into 8 common shares for each preferred share and $12.00. Issued in 1971 (note 10)	2,500		250	
	193,900	194,283	19,390	19,428
Common shares, without par value:				
Authorized (a)	16,950,000	16,950,000		
Issued	10,909,357	10,909,357	19,123	19,123
			$38,513	$38,551

(a) 105,000 shares are reserved for the potential conversion of third and fourth preferred shares.

8. RETAINED EARNINGS—

In compliance with Section 61 of the Canada Corporations Act, retained earnings of $1,010,000 are designated as capital surplus arising on the redemption of preferred shares.

The trust indentures, under which long-term debt is outstanding, contain certain restrictions relating to the payment of dividends.

9. COMMITMENTS AND CONTINGENT LIABILITIES—

(a) The aggregate minimum rentals under long-term leases (extending beyond five years from the balance sheet date) in effect at December 31, 1971 are as follows for each of the five year periods shown:

1972—1976	$31,576,000	1987—1991	$11,557,000
1977—1981	23,834,000	1992—1996	4,750,000
1982—1986	16,682,000	After 1996	288,000

Rentals paid in 1971 under long-term leases amounted to $6,045,000.

(b) Contingent liabilities, relating mainly to third party guarantees, amount to approximately $2,600,000.

10. STATUTORY INFORMATION—

(a) Secured loans and advances include $352,000 owing by a director for the purchase of shares in British Columbia Packers Limited and $1,950,000 owing by directors and officers of the company and its subsidiaries arising out of the purchase of preferred shares of the company through a trustee. These advances are secured by the shares being purchased.

(b) The aggregate direct remuneration to directors and officers was as follows:

Number of directors	13
Number of officers	12
Number of officers who are also directors	5

	Directors' fees	Other remuneration
Paid by the company	Nil	$457,585
Paid by subsidiaries	$7,400	605,285

(c) Sales by Division (in millions of dollars):

	1971	1970
Bakery	$ 67.6	$ 63.0
Biscuit & Confectionery	105.7	104.5
Chocolate & Dairy	52.6	48.2
Fisheries	112.9	106.9
Forest Products	118.9	116.7
Packaging	45.8	44.0
Wholesale & Retail	563.0	544.0
Interdivision Sales	(29.9)	(29.9)
	$1,036.6	$ 997.4

11. SUBSEQUENT EVENT—

In February 1972 a wholly-owned subsidiary, The E. B. Eddy Company Limited, sold a portion of its Hull, Quebec properties to the Federal Government's National Capital Commission for $29,500,000. While the company's ultimate costs in connection with the sale have not been precisely determined at this time, the transaction will result in a substantial gain over book values.

Auditors' Report

Clarkson, Gordon & Co.
Chartered Accountants

AUDITORS' REPORT
To the Shareholders of George Weston Limited:

We have examined the consolidated balance sheet of George Weston Limited and consolidated subsidiary companies as at December 31, 1971 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 8, 1972.

Clarkson, Gordon & Co.
Chartered Accountants

George Weston Limited Eight Year Review

(in thousands)

	1971	1970	1969	1968	1967	1966	1965	1964
SALES AND INCOME								
Sales	$1,036,578	$997,386	$931,857	$729,889	$622,435	$579,771	$485,919	$462,648
Depreciation	17,412	17,248	15,752	12,581	10,962	9,373	8,224	7,155
Interest	10,298	11,352	11,182	8,464	7,586	6,116	4,669	4,753
Taxes on Income	11,353	11,887	13,049	11,957	8,436	11,572	11,027	10,169
Income from Operations	15,113	14,396	15,432	13,076	12,983	14,254	12,558	11,281
—per common share	1.29	1.23	1.33	1.11	1.10	1.22	1.12	1.00
Extraordinary Items	1,672	1,249	57	10,085	6,789	1,022	1,036	1,093
Net Income	16,785	15,645	15,489	23,161	19,772	15,276	13,594	12,374
—per common share	1.45	1.35	1.33	2.04	1.72	1.31	1.21	1.09
Dividends								
—common shares	9,164	8,673	8,182	8,182	8,182	7,406	5,433	4,513
—preferred shares	1,016	945	931	950	961	974	982	984
FINANCIAL POSITION								
Current Assets	234,773	218,604	212,810	197,052	162,982	140,310	119,194	114,329
Current Liabilities	135,109	119,414	107,742	102,146	86,307	90,405	60,971	52,392
Working Capital	99,664	99,190	105,068	94,906	76,675	49,905	58,223	61,937
Fixed Assets—Net	180,998	183,388	183,391	158,427	136,649	120,043	107,751	93,933
Long-Term Debt	105,284	110,264	121,175	93,328	86,468	67,204	51,918	53,334
Shareholders' Equity	170,517	163,950	156,475	150,295	135,663	126,572	115,693	110,198
Total Assets	$456,833	$442,412	$437,120	$396,954	$349,399	$321,663	$259,161	$244,022

The figures for years 1964 to 1967 have not been restated for changes in accounting principle or presentation adopted in 1969.

EXECUTIVE OFFICES
25 King St. W., Toronto, Ont.

STOCK LISTINGS
Toronto, Montreal and Vancouver Stock Exchanges

TRANSFER AGENTS
National Trust Company, Limited, Toronto, Montreal, Winnipeg, Edmonton and their agents: Canadian Imperial Bank of Commerce, Charlottetown, Halifax, Saint John, Regina and Vancouver; The Detroit Bank and Trust Company, Detroit, Michigan, U.S.A.

AUDITORS
Clarkson, Gordon & Co.

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